Annual Report 2004

Alberta Heritage Savings Trust Fund

For the year ended March 31, 2004

Heritage Fund

Alberta
REVENUE

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Or by visiting our website at: www.albertaheritagefund.com

Minister of Revenue's Report to Albertans on the Alberta Heritage Savings Trust Fund

Fiscal year 2003-04 proved to be an exceptional year for the Heritage Fund. The Fund recorded the single largest annual rise in fair value in its twenty-eight year history. During the year, the fair value of the Fund's investment portfolio increased by $2.45 billion. A strong recovery in world stock markets marked the end to declining stock values over the past few years. Low interest rates, improved corporate earnings and increasing investor confidence fueled the recovery in the global economy. The Fund's long-term policy asset mix was well positioned to capitalize on this year's rising stock values.

Over the past 28 years, the Fund has generated approximately $26 billion in net income. The Fund's realized net income is transferred to the Province's main operating account, the General Revenue Fund, where it is used for Albertans' priorities such as health care, education, roads, tax reductions and debt repayment. As a result of this year's strong performance, the Fund was able to contribute $1.13 billion to general revenues.

The Heritage Fund has a diversified portfolio of investments including bonds, mortgages, public and private equities, real estate and absolute return strategies. The Fund has a global portfolio with investments located in Canada, United States, Europe, Australia, Asia and the Far East.

As of March 31, 2004, the Heritage Fund finished the year with a net fair value of $12.4 billion compared to $11.1 billion at the beginning of the year. The fair value of the Fund rose by $2.45 billion of which $1.13 billion was transferred or payable to the General Revenue Fund, resulting in a net increase in the Fund's fair value of $1.32 billion. Over the year, the Fund recorded a return on investment of 22.5%. Over four years, the Fund returned 3.2% on an annualized basis.

The Heritage Fund is an important part of the Province's fiscal framework and represents an ongoing legacy for all Albertans. It is important that it is managed on a prudent basis. While returns were very strong this year, we must be cautious in extrapolating these returns into the future. We recognize that in focusing more on achieving a higher long term rate of return, we accept increased risk and volatility in the Fund's investment income and returns from year to year. The key to achieving long term sustainable performance is to maintain a diversified portfolio, an exceptional investment management team and a long-term focus.

Honourable Greg Melchin, FCA
Minister of Revenue

Fund Governance

- The Heritage Fund was established in 1976 and operates under the authority of the *Alberta Heritage Savings Trust Fund Act*. On January 1, 1997, a new Act was passed that sets out a revised investment framework for the Fund.

- The Standing Committee on the Alberta Heritage Savings Trust Fund reviews and approves the business plan and annual report of the Fund. The Standing Committee has representation from the major parties of the legislature. The Standing Committee receives regular reports on the performance of the Fund and conducts public meetings on an annual basis in different locations in the Province. The purpose of these meetings is to update Albertans on the management of the Fund and to solicit input from Albertans on the Fund's objective.

- The Ministry of Revenue is responsible for the Fund and its investments. The Minister of Revenue is required to report on the performance of the Fund quarterly within 60 days of the end of the quarter and make public the annual report within 90 days of the end of the fiscal year.

- The business plan of the Heritage Fund is published as part of the provincial budget and the income of the Fund is consolidated into the revenue of the Province.

- An Endowment Fund Policy Committee (EPC) was established during the year to add focussed private sector financial and business oversight of the Fund's investment policies and operation. The EPC is chaired by the Minister of Revenue and consists of private sector members and government MLAs. The Committee reviews and makes recommendations with respect to the business plan, annual report and investment policy statements for the Fund. The Committee meets at least quarterly to review performance and fund management.

- The investment portfolio of the Heritage Fund is managed by a group of highly qualified and experienced professionals in Alberta Investment Management Division, part of the Department of Revenue. External managers (specialized private sector investment managers) are used to manage specific investment mandates.

Business Plan

PURPOSE

The business plan of the Heritage Fund describes the mission, goals, investment objective, and how the Fund's performance will be measured. The business plan is reviewed annually and is published as part of the provincial budget. The Endowment Fund Policy Committee (EPC) reviews and makes recommendations regarding the business plan and the investment policies for the Fund. The business plan is then reviewed and approved by the Minister of Revenue, Treasury Board and the Legislature's Standing Committee on the Alberta Heritage Savings Trust Fund.

MISSION

The statutory mission of the Fund is:

> **"To provide prudent stewardship of the savings from Alberta's non-renewable resources by providing the greatest financial returns on those savings for current and future generations of Albertans."**

GOALS

The two goals of the Fund, as outlined in the 2003-06 business plan are as follows:

1. Make investments to maximize long-term financial returns. The Heritage Fund is expected to generate a real rate of return of 5.0% at an acceptable level of risk over a four-year period.
2. Improve Albertans' understanding and the transparency of the Heritage Fund.

INVESTMENT OBJECTIVE

The investment objective of the Fund is to optimize long-term financial returns subject to an acceptable level of risk. By legislation, Alberta Revenue operates under the "Prudent Person Rule". This assigns to the investment manager the responsibility to restrict investments to assets that would be approved by a prudent person. Investment funds with long-term investment horizons and an objective to optimize long-term returns, invest a significant amount of their assets in equities since equities have historically provided investors with higher total returns (dividends and capital gains) than interest bearing securities. The Heritage Fund follows a similar strategy to achieve higher financial returns. However, this can result in more volatility in capital gains and less interest income. For example, the annual compound return on Canadian equities and long bonds from 1924 to 2002 was 9.7% and 6.2% respectively but the standard deviation of annual returns for equities was 18.2% versus 8.5% for long bonds.

PERFORMANCE MEASURES

The Heritage Fund business plan outlines various performance measures and benchmarks, which are reviewed annually to determine ongoing suitability.

The 2003-06 Business Plan incorporated the following major changes:

- Increase investments in private equities and absolute return strategies.
- Reduce investments in Canadian public equities to accommodate the increase in private equities and absolute return strategies.

The following table summarizes the 2003-06 Business Plan performance measures, including the long-term investment policy weights and benchmark return indices by asset class.

ASSET CLASS	Long-term (1) Policy Allocation 2003-04	2002-03	Benchmark Return Index (2)
Fixed income			
Money market	2.0%	2.0%	Scotia Capital 91-Day T-Bill
Bonds	33.0%	33.0%	Scotia Capital Universe Bond Index
	35.0%	**35.0%**	
Public equities			
Canadian	15.0%	20.0%	Toronto Stock Exchange (S&P/TSX) Composite Index
United States	15.0%	15.0%	Standard & Poor's (S&P) 500 Index
Non-North American	15.0%	15.0%	Morgan Stanley Capital International (MSCI) EAFE Index
	45.0%	**50.0%**	
Real estate	**10.0%**	**10.0%**	Consumer Price Index (CPI) plus 5%
Absolute return strategies	**5.0%**	**3.0%**	Consumer Price Index (CPI) plus 6%
Private equities	**5.0%**	**2.0%**	Consumer Price Index (CPI) plus 8%
	100.0%	**100.0%**	

(1) Effective for fiscal year 2004-05, the long-term policy allocation is changed so that the allocation to bonds decreases by 2.5% to 31.5% and the allocation to absolute return strategies increases by 2.5% to 7.5%.

(2) Effective for 2004-05, the benchmark return index for United States equities changes to the Standard & Poor's (S&P) 1500 Index.

The Year in Review

YEAR IN REVIEW

World stock markets climbed steadily throughout fiscal year 2003-04. The Canadian market, measured by the S&P/TSX Composite Index rose by 37.7%. The Canadian economy continued to generate new jobs. The housing market was particularly strong, setting new records in 2003 due in large part to low interest rates and job growth.

Throughout the year, the value of the US dollar weakened against the Canadian dollar. At year-end, $1 US purchased $1.31 Canadian compared to $1.47 Canadian at the end of the previous year. As a result, the appreciation in value of US equity investments was partially reduced when translated into Canadian dollars. Over the year, the US market measured by the S&P 500 Index grew by 35.1% in US dollars and 20.5% in Canadian dollars. The US economy accelerated throughout the year. The US service sector grew while US factories expanded at a healthy pace. Worker productivity also rose, however employment lagged.

The Non-North American market measured by the MSCI EAFE Index increased by a healthy 40.5%. The increase in the Non-North American market over the year was fueled primarily from a stronger US economy.

The following table summarizes the Fund's overall investment returns for each quarter of fiscal year 2003-04.

	Actual Return (%)	Increase in Fair Value ($ millions)
First Quarter	7.1%	$ 786
Second Quarter	3.7%	436
Third Quarter	6.3%	753
Fourth Quarter	3.8%	479
2003-04 Fiscal Year*	22.5%	$ 2,454

* weighted average rate of return.

MARKET SUMMARY

Benchmark Index Returns
Year ended March 31, 2004 (percent)

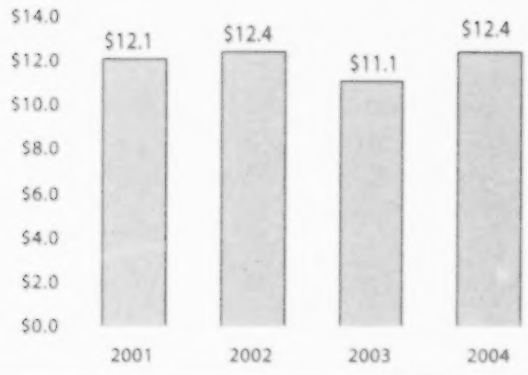
	%
Stock Markets	
Canadian	
S&P/TSX Index	37.7
United States	
S&P 500 Index (US $)	35.1
S&P 500 Index (Cdn $)	20.5
Non-North American	
MSCI EAFE Index (Cdn $)	40.5
Canadian Bond Market	
SC Bond Universe Index	10.8

FUND VALUE

Over the year, the fair value of the Fund rose by $2.45 billion of which $1.13 billion was transferred or payable to the General Revenue Fund resulting in a net increase in the Fund's fair value of $1.32 billion. At March 31, 2004, the fair value of the Heritage Fund stood at $12.4 billion up from $11.1 billion at the beginning of the year.

HERITAGE FUND - FAIR VALUE

As at March 31(billions)



INVESTMENT INCOME

The Fund recorded net income of $1,133 million during fiscal year 2003-04. Interest, dividends, real estate income and security lending income for the year totaled $421 million, net of administrative expenses. Net realized capital gains from sale of securities and gains arising from derivative transactions totaled $712 million for the year.

INVESTMENT INCOME (LOSS) BY TYPE OF INVESTMENT

(millions)

	Fixed Income	Equity Income	Real Estate	Absolute Return Strategies	Total
03-04	$ 304	$ 737	$ 54	$ 38	$ 1,133
02-03	286	(1,224)	39	5	(894)
01-02	444	(276)	38	-	206
00-01	532	157	17	-	706

INVESTMENT VALUATION

Investments and investment income are recorded on the financial statements of the Heritage Fund at cost in accordance with government accounting policies. The fair value of the Fund and its investments are provided for information purposes. Management uses fair value to assess the investment performance of the fund against market-based benchmarks.

The Fund's policy is to write down the cost of those securities where the decline in value below cost is not considered temporary. On a quarterly basis, management reviews the Fund's investment portfolio to identify those securities where the fair value has declined significantly below cost. The Fund's net income includes writedowns totaling $2.6 million.

CHANGE IN NET ASSETS

The Heritage Fund accounts for its investments on a cost basis of accounting. Investment income on a cost basis excludes unrealized gains and losses. Investment income on a fair value basis includes unrealized gains and losses. Investment income on a fair value basis for fiscal year 2003-04 was $2.454 billion.

CHANGES IN NET ASSETS

(millions)

	2004	2003
Fair value, beginning of year	$ 11,075	$ 12,410
Investment income (loss), cost basis*	1,133	(894)
Change in unrealized appreciation (depreciation) in value of investments	1,321	(441)
Investment income (loss), fair value basis	2,454	(1,335)
Transfers to the General Revenue Fund**	(1,133)	-
Fair value, end of year***	$ 12,396	$ 11,075

* includes interest, dividends, realized gains and losses, derivative income and administration expenses

** see financial statements (Note 6)

*** includes investments of $12,541 million less net current liabilities of $145 million

INVESTMENT ASSET MIX

The investment strategy is to invest in a diversified portfolio to optimize long-term returns at an acceptable level of risk. The policy asset allocation is reported in the Fund's 2003-06 business plan as follows:

ASSET MIX POLICY

Percent of Fair Value

	2004		2003	
	Long-term Policy Target	Actual	Long-term Policy Target	Actual
ASSET CLASS				
Fixed income	35.0	33.2	35.0	35.8
Equities				
Public equities:				
Canadian	15.0	22.1	20.0	21.4
United States	15.0	15.6	15.0	15.8
Non-North American	15.0	16.4	15.0	15.7
	45.0	54.1	50.0	52.9
Real estate	10.0	7.6	10.0	7.9
Absolute return strategies	5.0	4.0	3.0	2.6
Private equities	5.0	1.1	2.0	0.8
	100.0	100.0	100.0	100.0

For the 2003-04 fiscal year, the long term policy asset mix for fixed income securities remains the same as the previous year at 35.0%. The policy mix for public equity investments decreases from 50.0% to 45.0% due to a reduction in Canadian public equity investments by 5.0%. The reduction in Canadian public equities is offset by an increase in absolute return strategy investments and private equities. Absolute return strategy investments increase from 3.0% to 5.0% of total portfolio investments while private equities increase from 2.0% to 5.0%. Real estate investments are expected to remain unchanged at 10.0% of total portfolio investments.

The actual investment mix changed over the past year. Fixed income securities declined from 35.8% to 33.2%. Public equity investments increased from 52.9% to 54.1% largely due to the increase in market value of public equity investments relative to other investments. Real estate investments decreased from 7.9% to 7.6% of the Fund's total investment portfolio. Private equity investments increased slightly from 0.8% to 1.1%. Absolute return strategies increased from 2.6% to 4.0% of the Fund's investment portfolio.

TRANSFERS TO THE GENERAL REVENUE FUND

Realized investment income earned by the Fund is not reinvested in the Fund. Instead, all of the net income is transferred to the Province's main operating fund, the General Revenue Fund (GRF), and is used for Albertans' priorities like health care, education, roads, tax reductions and debt repayment. Changes in unrealized gains and losses are not included in amounts transferred to the GRF.

The Fund's net income for the year ended March 31, 2004 amounted to $1,133 million, of which $981 million was transferred and $152 million remains payable to the GRF.

The Government of Alberta financial statements are prepared on a consolidated basis, which eliminates the income the Heritage Fund earns from Alberta provincial corporation securities totaling $17 million for the year ending March 31, 2004. On a consolidated basis Heritage Fund net income was $1,116 million.

Performance Measurement

HERITAGE FUND RATE OF RETURN

The Heritage Fund posted an overall rate of return of 22.5% this year, 80 basis points better than the Fund's policy benchmark return of 21.7%. The Fund earned positive returns from all asset classes.

The performance of the Heritage Fund is measured over the long term. Over the past four-year period, the fund generated a nominal annualized return of 3.2%. The Heritage Fund is expected to generate a nominal annualized rate of return of 7.4% over four years, which includes a real rate of return of 5.0% plus inflation of 2.4%.

HERITAGE FUND ANNUAL RETURNS

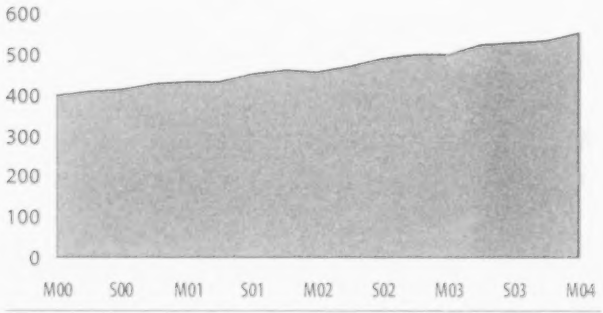
At Fair Value (percent)

The performance of the Heritage Fund investments is measured against various market-based indices. Value added by investment management is accomplished through asset mix decisions and security selection. The following sections describe the performance of the Fund's major asset classes in relation to their benchmarks.

FIXED INCOME INVESTMENTS

The Canadian bond market performed well this year. The Scotia Capital (SC) Universe Bond Index measures the performance of marketable Canadian bonds with terms to maturity of more than one year. Over the past year, the SC Universe Bond Index increased by 10.8% while the short term SC 91-Day T-Bill Index increased by 3.0%.

SC UNIVERSE BOND INDEX



LT Fixed Income	Actual Return %	Benchmark SC Universe Bond Index %	Over (Under) bps*
One Year	11.3	10.8	50
Four Years (annualized)	9.0	8.4	60

ST Fixed Income	Actual Return %	Benchmark SC 91-Day T-Bill Index %	Over (Under) bps*
One Year	2.9	3.0	(10)
Four Years (annualized)	3.9	3.8	10

* one basis point equals 0.01%.

The Fund's actual rate of return over the year from long-term Canadian securities was 11.3%, 50 basis points better than the benchmark SC Universe Bond Index. Over four years, the return from long-term securities was 9.0% or 60 basis points better than the benchmark of 8.4%. The out-performance was

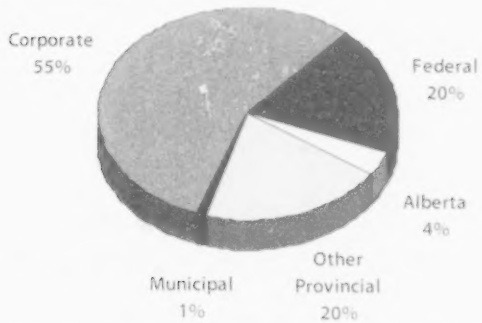
primarily due to a higher weight in corporate bonds and duration management. The Fund's return from short-term securities was 2.9% and 3.9% over one year and four years respectively. The Heritage Fund's fixed income portfolio is internally managed through various pools and through direct holdings.

Over the year, investments in bonds, notes, short-term paper, provincial corporation debentures and loans declined from 35.8% to 33.2% of total investments. Fixed income securities now total $4.2 billion, up from $4.0 billion the previous year.

The Fund's Canadian fixed income portfolio is comprised of diversified holdings in corporate, federal, provincial and municipal bonds, notes and short-term paper.

SUMMARY OF FIXED INCOME HOLDINGS

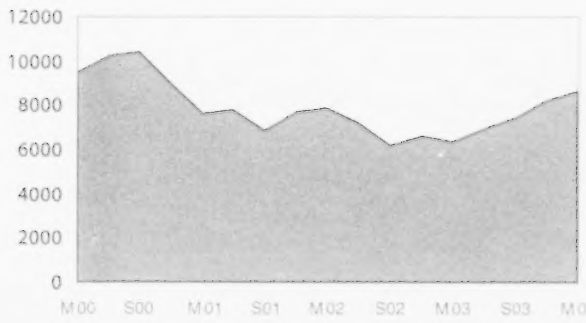
(issued and guaranteed by)



CANADIAN EQUITY INVESTMENTS

The Canadian stock market made substantial gains this year led by the information technology sector, which increased by 112% over the year. The Toronto Stock Exchange S&P/TSX Composite Index, which measures the performance of Canada's top companies in ten industrial sectors, increased by 37.7% for the year ending March 31, 2004.

S&P / TSX



Canadian Public Equities	Actual Return %	Benchmark S&P/TSX Index %	Over (Under) bps
One Year	36.6	37.7	(110)
Four Years (annualized)	(0.1)	(0.8)	70

The Heritage Fund's Canadian equity portfolio is held in various investment pools, which are managed by internal and external managers. Over the year the Fund's actual return from Canadian equities rose by 36.6%, 110 basis points below the benchmark S&P/TSX Composite Index of 37.7%. Lower returns from the Canadian large cap sector and an under-weight position in technology stocks contributed to the under-performance. Over four years, the Fund's return from Canadian equities was negative 0.1% compared to the benchmark return of negative 0.8%.

At March 31, 2004, investments in Canadian public equities totaled 22.1% or $2.8 billion of the Heritage Fund investment portfolio compared to 21.4% or $2.4 billion one year earlier.

TOP TEN HOLDINGS IN THE CANADIAN EQUITY PORTFOLIO

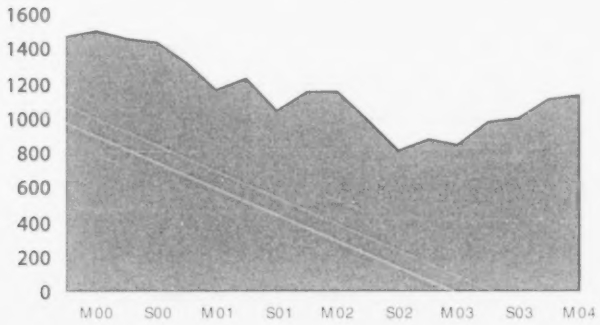
March 31, 2004

Company	% of Holdings
Royal Bank of Canada	5.0
Bank of Nova Scotia	4.1
Toronto Dominion Bank	3.6
Bank of Montreal	3.5
Nortel Networks	3.5
Manulife Financial Corp.	3.4
Encana Corp.	3.4
Canadian Imperial Bank of Commerce	3.3
Alcan Inc.	3.1
BCE Inc.	3.0

UNITED STATES EQUITY INVESTMENTS

The United States equity market closed out the fiscal year posting substantial gains. The Standard & Poor's 500 Index, S&P 500, which measures the performance of the top 500 American companies, increased by 35.1% in US dollars and 20.5% in Canadian dollars. All ten industry sectors posted healthy gains.

S&P 500



US Public Equities	Actual Return %	Benchmark S&P 500 Index %	Over (Under) bps
One Year	22.0	20.5	150
Four Years (annualized)	(7.4)	(7.9)	50

The Fund's actual rate of return over the year from US equities was 22.0% in Canadian dollars or 150 basis points greater than the S&P 500 Index. Strong performance from the Fund's US small cap stock portfolio and currency hedges contributed to the out-performance. Over four years, the Fund's US equity portfolio returned a negative 7.4%, 50 basis points better than the benchmark S&P 500 Index.

At March 31, 2004, investments in US equities totaled 15.6% or $2.0 billion of the Heritage Fund investment portfolio compared to 15.8% or $1.7 billion a year earlier.

TOP TEN HOLDINGS IN THE U.S. EQUITY PORTFOLIO

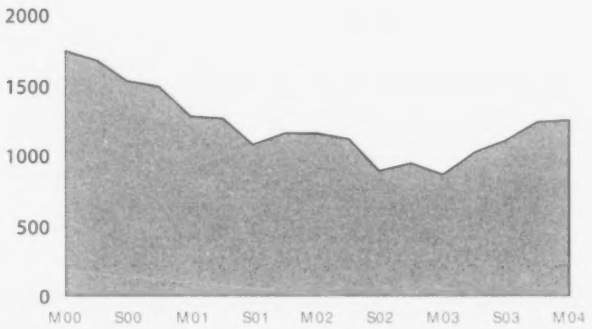
March 31, 2004

Company	% of Holdings
Pfizer Inc.	2.4
Citigroup Inc.	2.3
Microsoft Inc.	1.9
General Electric Co.	1.8
Exxon Mobil Corp.	1.6
Wal-Mart Stores	1.5
Cisco Systems Inc.	1.4
American International Group Inc.	1.4
PepsiCo	1.3
Intel Corp	1.3

NON-NORTH AMERICAN EQUITY INVESTMENTS

The Non-North American equity market recorded strong gains this year. The Morgan Stanley Capital International Index for Europe, Australasia, and the Far East, MSCI EAFE Index, measures the performance of approximately 1000 companies on 21 stock exchanges around the world. The index rose by a substantial 40.5% over the year, in Canadian Dollars.

MSCI EAFE

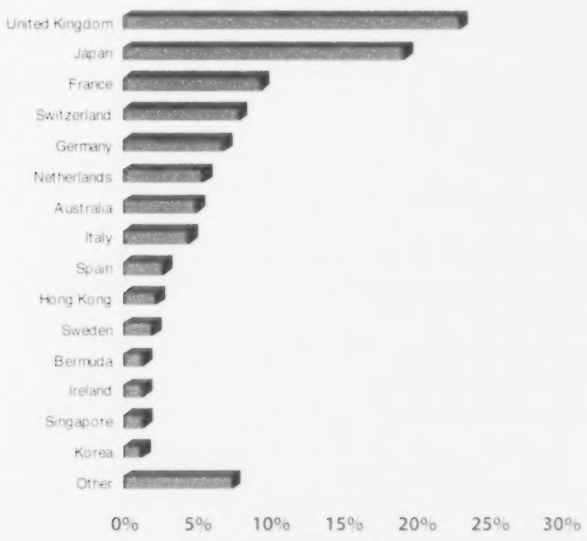


EAFE Public Equities	Actual Return %	Benchmark MSCI EAFE Index %	Over (Under) bps
One Year	40.9	40.5	40
Four Years (annualized)	(7.6)	(7.2)	(40)

The Fund's actual return from Non-North American equities rose by 40.9% or 40 basis points better than the MSCI EAFE Index. Over four years the Fund's Non-North American equity portfolio returned a negative 7.6%, 40 basis points less than the benchmark MSCI EAFE Index.

The Fund's Non-North American equity portfolio is invested through out the world.

NON-NORTH AMERICAN EQUITIES BY COUNTRY
Percent of Fair Value



At March 31, 2004, investments in Non-North American equities totaled 16.4% or $2.1 billion of the Heritage Fund investment portfolio compared to 15.7% or $1.7 billion a year earlier.

TOP TEN NON-NORTH AMERICAN EQUITY HOLDINGS
March 31, 2004

Company	% of Holdings
Total SA	1.9
Vodafone Group	1.7
Nestle SA	1.4
UBS AG	1.3
Aventis SA	1.2
Novartis AG	1.1
ENI	1.1
BP PLC	1.1
Toyota Motor Corp	1.0
Nokia (AB) OY	1.0

REAL ESTATE INVESTMENTS

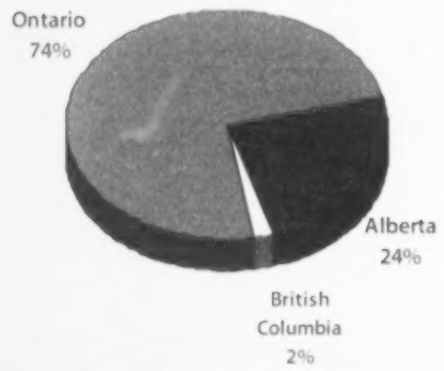
The Fund's real estate investments are held in the internally managed Private Real Estate Pool. Real estate investments earned 7.5% over the year and 8.6% over four years. The outperformance over one year was due to strong returns from the portfolio's retail assets.

Real Estate	Actual Return %	Benchmark CPI plus 5%* %	Over (Under) bps
One Year	7.5	5.7	180
Four Years (annualized)	8.6	9.3	(70)

* Effective April 1,2002, the benchmark changed from the Russell Canadian Property Index (RCPI) to CPI plus 5%. Therefore, the benchmark for four years is a combination of RCPI and CPI plus 5%.

Nearly half of the real estate portfolio is invested in retail, half in office and a small portion in industrial and multi-family residential. Approximately 74% of the real estate holdings are located in Ontario, 24% in Alberta and 2% in British Columbia.

REAL ESTATE BY GEOGRAPHIC DISTRIBUTION



At March 31, 2004, investments in real estate totalled 7.6% or $950 million of the Heritage Fund investment portfolio compared to 7.9% or $870 million one year earlier.

ABSOLUTE RETURN STRATEGIES

Absolute return strategy investments encompass a wide variety of investments with the objective of realizing positive returns regardless of the overall market direction. A common feature of many of these strategies is buying undervalued securities and selling short overvalued securities. Over the year absolute return strategies generated a return of 10.7%, 400 basis points better than the benchmark Consumer Price Index (CPI) plus 6.0%. The out-performance of absolute return strategy managers over the year was protected by a currency hedge.

Absolute Return Strategies	Actual Return %	CPI plus 6% %	Over (Under) bps
One Year	10.7	6.7	400
Four Years (annualized)	n/a	n/a	

At March 31, 2004, investments in absolute return strategies totaled 4.0% or $507 million of total Fund investments compared to 2.6% or $283 million at March 31, 2003.

PRIVATE EQUITY AND PRIVATE INCOME INVESTMENTS

At March 31, 2004, the private equity and private income portfolio comprised a small portion of the Fund's overall investment portfolio at 1.1% or $136 million compared to 0.8% or $90 million one year earlier. During the year, the private equity and income portfolio returned 4.6%, 410 basis points below the benchmark Consumer Price Index plus 8%. Private equity and income investments had lower returns due to higher initial management fees and start-up costs.

Private Equity & Income	Actual Return %	CPI plus 8% %	Over (Under) bps
One Year	4.6	8.7	(410)
Four Years (annualized)	n/a	n/a	

Administrative Expenses

Administrative expenses include investment management, cash management, security system costs, valuation and fund accounting costs, security custody and transaction costs, financial reporting and investment policy costs and other expenses. External management and custodial fees are deducted directly from the income of externally managed investment pools. Internal administrative expenses are deducted from the internally managed pooled funds and also directly from the Fund.

The Fund's total administrative expenses for the year ended March 31, 2004, including amounts deducted from the investment income of the pooled funds, amounted to $17.9 million or 0.145% of the Funds net assets at fair value compared to $15.9 million or 0.144% of net assets for the same period last year. Expenses as a percentage of net assets at fair value remained approximately the same over the year.

ADMINISTRATIVE EXPENSE BREAKDOWN

Year ended March 31, 2004

	2004	2003
	(thousands)	
Direct fund expenses	$ 2,166	$ 1,778
Externally managed investment pools	12,338	11,883
Internally managed investment pools	3,425	2,286
Total	$17,929	$ 15,947
Expenses as a percent of net assets at fair value	0.145%	0.144%

Over the past year, expenses of direct and internally managed investment pools increased by $1.527 million over the same period last year. The net increase in expense for the internally managed pools was due to additional staffing requirements, system improvements and transfer of costs associated with the transfer of US passively managed investments from external managers to internal managers.

Expenses from externally managed investment pools increased by $455 thousand over the same period. The net increase in expenses from externally managed pools is due to the Absolute Return Strategy Pool.

BUSINESS PLAN PERFORMANCE MEASURES

HERITAGE FUND (COMBINED) (1)	2004	2003	2002	2001	Four Years(2)
Actual return (%)	**22.5**	(11.0)	4.2	(0.1)	**3.2**

ENDOWMENT PORTFOLIO	2004	2003	2002	2001	Four Years(2)
Actual return (%)	**22.5**	(11.3)	3.3	(6.1)	**1.3**
Benchmark return (%)	**21.7**	(11.7)	3.4	(6.2)	**1.1**
Over (under) benchmark (%)	**0.8**	0.4	(0.1)	0.1	**0.2**

	Actual Weight	Actual Return - %				Four Years(2)
		2004	2003	2002	2001	
ST fixed income	0.9	**2.9**	3.0	3.8	5.7	**3.9**
LT fixed income	32.3	**11.3**	9.5	5.9	9.5	**9.0**
Canadian public equities	22.1	**36.6**	(16.6)	4.2	(16.0)	**(0.1)**
US public equities	15.6	**22.0**	(30.6)	1.4	(14.4)	**(7.4)**
EAFE public equities	16.4	**40.9**	(29.1)	(5.8)	(22.6)	**(7.6)**
Private equities	1.1	**4.6**	(3.3)	n/a	n/a	**n/a**
Real sstate	7.6	**7.5**	9.8	7.3	9.7	**8.6**
Absolute return strategies	4.0	**10.7**	1.6	n/a	n/a	**n/a**
Total	100.0	**22.5**	(11.3)	3.3	(6.1)	**1.3**

	Long-term Policy Weight	Benchmark Return - %				Four Years(2)
		2004	2003	2002	2001	
ST fixed income	2.0	**3.0**	2.7	3.7	5.7	**3.8**
LT fixed income	33.0	**10.8**	9.2	5.1	8.7	**8.4**
Canadian equities	15.0	**37.7**	(17.6)	4.9	(18.6)	**(0.8)**
US equities	15.0	**20.5**	(30.7)	1.6	(15.1)	**(7.9)**
EAFE equities	15.0	**40.5**	(29.3)	(7.3)	(19.6)	**(7.2)**
Private equities	5.0	**8.7**	5.7	n/a	n/a	**n/a**
Real estate	10.0	**5.7**	9.6	9.9	11.9	**9.3**
Absolute return strategies	5.0	**6.7**	4.7	n/a	n/a	**n/a**
Total	100.0	**21.7**	(11.7)	3.4	(6.2)	**1.1**

TRANSITION PORTFOLIO (1) *Historical Performance Returns*	Six Months 2003	2002	2001
Actual return (%)	0.5	5.3	8.2

(1) The Transition Portfolio was wound up in the first half of 2002-03. The combined Heritage Fund return includes the past performance of the Transition Portfolio.

(2) Annualized

HISTORICAL SUMMARY OF OPERATIONS

May 19, 1976 to March 31, 2004
(millions)

	Net Income (loss)	Transfers From GRF	Transfers To GRF	Capital Project Expenditures	Fund Equity (a)
1976-77	$88	$2,120	-	(36)	$2,172
1977-78	194	931	-	(87)	3,210
1978-79	294	1,059	-	(132)	4,431
1979-80	343	1,332	-	(478)	5,628
1980-81	724	1,445	-	(227)	7,570
1981-82	1,007	1,433	-	(349)	9,661
1982-83	1,482	1,370	(866)	(296)	11,351
1983-84	1,467	720	(1,469)	(330)	11,739
1984-85	1,575	736	(1,575)	(228)	12,247
1985-86	1,667	685	(1,667)	(240)	12,692
1986-87	1,445	216	(1,445)	(227)	12,681
1987-88	1,353	-	(1,353)	(129)	12,552
1988-89	1,252	-	(1,252)	(155)	12,397
1989-90	1,244	-	(1,244)	(134)	12,263
1990-91	1,337	-	(1,337)	(150)	12,113
1991-92	1,382	-	(1,382)	(84)	12,029
1992-93	785	-	(785)	(84)	11,945
1993-94	1,103	-	(1,103)	(71)	11,874
1994-95	914	-	(914)	(49)	11,825
1995-96	1,046	-	(1,046)	-	11,825
1996-97	932	-	(756)	-	12,001
1997-98	947	-	(922)	-	12,026
1998-99	932	-	(932)	-	12,026
1999-00	1,169	-	(939)	-	12,256
2000-01	706	-	(706)	-	12,256
2001-02	206	-	(206)	-	12,256
2002-03	(894)	-	-	-	11,362
2003-04	1,133	-	(1,133)	-	11,362
TOTAL	$ 25,833	$ 12,047	$ (23,032)	$ (3,486)	$ 11,362

(a) at cost

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MARCH 31, 2004

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Auditor's Report

TO THE MINISTER OF REVENUE

I have audited the balance sheet of the Alberta Heritage Savings Trust Fund as at March 31, 2004 and the statements of operations and cash flow for the year then ended. These financial statements are the responsibility of the Fund's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

FCA
Auditor General

Edmonton, Alberta
May 21, 2004

FINANCIAL STATEMENTS

BALANCE SHEET

March 31, 2004 (thousands)

	2004	2003
Assets		
Portfolio investments (Note 3)	$ 11,507,117	$ 11,346,295
Accrued investment income	7,542	16,145
Administrative expense receivable	310	2
	$ 11,514,969	$ 11,362,442
Liabilities and Fund Equity		
Liabilities		
Accounts payable	$ 42	$ -
Due to the General Revenue Fund	152,485	-
	152,527	-
Fund equity (Note 6)	11,362,442	11,362,442
	$ 11,514,969	$ 11,362,442

STATEMENT OF OPERATIONS

Year Ended March 31, 2004 (thousands)

	2004		2003
	Budget	Actual	Actual
Net income (loss) (Note 7)	$ 440,170	$ 1,133,485	$ (893,877)
Transfers to the General Revenue Fund (Note 6)	440,170	1,133,485	-
Net change in fund equity (Note 6)	$ -	-	(893,877)
Fund equity at beginning of year		11,362,442	12,256,319
Fund equity at end of year		$ 11,362,442	$ 11,362,442

The accompanying notes and schedules are part of these financial statements.

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STATEMENT OF CASH FLOW

Year Ended March 31, 2004 (thousands)

	2004	2003
Operating transactions		
Net income (loss)	$ 1,133,485	$ (893,877)
Non-cash items included in net income	(166,266)	58,636
	967,219	(835,241)
Decrease in accounts receivable	8,295	20,640
Increase (decrease) in accounts payable	42	(269,287)
Cash provided by (applied to) operating transactions	975,556	(1,083,888)
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	1,576,492	5,524,009
Purchase of investments	(1,707,900)	(4,228,530)
Cash provided by (applied to) investing transactions	(131,408)	1,295,479
Transfers		
Transfers to the General Revenue Fund	(1,133,485)	
Increase (decrease) in amounts due to the General Revenue Fund	152,485	(12,897)
Cash applied to transfers	(981,000)	(12,897)
Increase (decrease) in cash	(136,852)	198,694
Cash at beginning of year	250,514	51,820
Cash at end of year	$ 113,662	$ 250,514
Consisting of Deposit in the Consolidated Cash Investment Trust Fund (Note 3)	$ 113,662	$ 250,514

The accompanying notes and schedules are part of these financial statements.

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS
March 31, 2004

NOTE 1 AUTHORITY AND MISSION

The Alberta Heritage Savings Trust Fund operates under the authority of the *Alberta Heritage Savings Trust Fund Act* (the Act), Chapter A-23, Revised Statutes of Alberta 2000, as amended.

The preamble to the Act describes the mission of the Fund as follows:

"To provide prudent stewardship of the savings from Alberta's non-renewable resources by providing the greatest financial returns on those savings for current and future generations of Albertans."

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These financial statements are prepared in accordance with generally accepted accounting principles.

The accounting policies of significance to the Fund are as follows:

(a) Portfolio investments

Fixed-income securities, mortgages, equities, real estate investments and absolute return strategy investments held directly by the Fund or by pooled investment funds are recorded at cost. Cost includes the amount of applicable amortization of discount or premium using the straight-line method over the life of the investments.

Investments in loans are recorded at cost less any allowance for credit loss. Where there is no longer reasonable assurance of timely collection of the full amount of principal and interest of a loan, a specific provision for credit loss is made and the carrying amount of the loan is reduced to its estimated realizable amount.

Investments are recorded as of the trade date.

The cost of disposals is determined on the average cost basis.

Where there has been a loss in value of an investment in fixed-income securities, mortgages, equities, real estate and absolute return strategies that is other than a temporary decline, the investment is written down to recognize the loss. The written down value is deemed to be the new cost.

(b) Investment Income

Investment income is recorded on the accrual basis where there is reasonable assurance as to its measurement and collectability. When a loan becomes impaired, recognition of interest income in accordance with the terms of the original loan agreement ceases. Any subsequent payments received on an impaired loan are applied to reduce the loan's book value.

Gains and losses arising as a result of disposals of investments are included in the determination of investment income.

Income and expense from derivative contracts are included in investment income. Certain derivative contracts, which are primarily interest rate swaps and cross-currency interest rate swaps, are designated as hedges of market risks for purposes of hedge accounting. Hedge accounting recognizes gains and losses from derivatives in the statement of income in the same period as the gains and losses of the security being hedged. As a result, income and expense from derivative contracts designated as hedges are recognized in income on an accrual basis with gains and losses recognized in income to the extent realized.

Derivative contracts not designated as hedges for purposes of hedge accounting, which are primarily bond index swaps, equity index swaps and equity index futures contracts are recorded at fair value.

(c) Foreign Currency

Foreign currency transactions are translated into Canadian dollars using average rates of exchange, except for hedged foreign currency transactions

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Note 2 (continued)

which are translated at rates of exchange established by the terms of the forward exchange contracts. Exchange differences on unhedged transactions are included in the determination of investment income.

(d) Investment Valuation

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair values of investments held either directly by the Fund or by pooled investment funds are determined as follows:

(i) Public fixed-income securities and equities are valued at the period-end closing sale price, or the average of the latest bid and ask prices quoted by an independent securities valuation company.

(ii) Mortgages, provincial corporation debentures and private fixed-income securities are valued based on the net present value of future cash flows. These cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.

(iii) The fair value of private equities is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and multiple analysis.

(iv) The fair value of real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including the replacement cost approach, direct comparison approach, direct capitalization of earnings approach and the discounted cash flows approach.

(v) The fair value of Absolute Return Strategy Pool investments are estimated by external managers.

(vi) The fair value of loans is estimated by management based on the present value of discounted cash flows.

(vii) The fair value of deposits, receivables, accrued interest and payables are estimated to approximate their book values.

(viii) The fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate.

(e) Valuation of Derivative Contracts

Derivative contracts include equity and bond index swaps, interest rate swaps, cross-currency interest rate swaps, credit default swaps, forward foreign exchange contracts and equity index futures contracts. As disclosed in Note 4, the value of derivative contracts is included in the fair value of pooled investment funds. The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

(i) Equity and bond index swaps are valued based on changes in the appropriate market based index net of accrued floating rate interest.

(ii) Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates.

(iii) Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities.

(iv) Forward foreign exchange contracts and equity index futures contracts are based on quoted market prices.

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NOTE 3 PORTFOLIO INVESTMENTS (Schedules A to E)

	2004			2003		
	Cost	Fair Value	%	Cost	Fair Value	%
	(thousands)			*(thousands)*		
Fixed income securities (Schedule A)						
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 113,662	$ 113,662	0.9	$ 250,514	$ 250,514	2.3
Canadian Dollar Public Bond Pool (b)	3,135,075	3,223,579	25.7	3,012,610	2,996,258	27.1
Bonds, notes & short-term paper, directly held (c)	23,799	25,304	0.2	24,515	25,470	0.2
Private Mortgage Pool (d)	544,000	558,409	4.5	432,916	429,077	3.9
Provincial corporation debentures, directly held (e)	94,656	150,125	1.2	100,037	158,018	1.4
Loans, directly held (f)	93,144	93,144	0.7	97,359	97,359	0.9
	4,004,336	4,164,223	33.2	3,917,951	3,956,696	35.8
Canadian public equities (Schedule B)						
Domestic Passive Equity Pooled Fund (g)	989,162	1,152,226	9.2	907,115	1,050,459	9.5
Canadian Pooled Equity Fund (h)	581,354	699,381	5.6	647,209	596,641	5.4
External Managers Canadian Large Cap Equity Pool (i)	576,697	674,266	5.4	672,938	638,043	5.8
Growing Equity Income Pool (j)	182,284	191,135	1.5	–	–	–
External Managers Canadian Small Cap Equity Pool (k)	36,611	51,135	0.4	72,655	80,751	0.7
	2,366,108	2,768,143	22.1	2,299,917	2,365,894	21.4
United States public equities (Schedule C)						
S&P 500 Index Fund (l)	914,333	1,031,374	8.2	443,426	429,631	3.9
External Managers US Large Cap Equity Pool (m)	687,476	685,839	5.5	894,835	753,677	6.8
External Manager US Small/Mid Cap Equity Pool (n)	224,758	244,619	1.9	111,304	106,645	0.9
External Manager US Passive Equity Pool	–	–	–	505,192	462,155	4.2
United States Pooled Equity fund	–	–	–	255	105	–
	1,826,567	1,961,832	15.6	1,955,012	1,752,213	15.8
Non-North American public equities (Schedule D)						
External Managers EAFE Core Equity Pool (o)	949,210	1,027,313	8.2	1,054,819	876,238	7.9
External Managers EAFE Plus Equity Pool (o)	460,474	500,339	4.0	518,725	437,568	3.9
External Manager EAFE Passive Equity Pool (p)	366,816	525,190	4.2	411,772	427,300	3.9
	1,776,500	2,052,842	16.4	1,985,316	1,741,106	15.7
Real estate (Schedule E)						
Private Real Estate Pool (q)	871,959	949,771	7.6	804,855	869,948	7.9
Absolute Return Strategies						
Absolute Return Strategy Pool (r)	512,075	507,721	4.0	283,042	282,967	2.6
Private Equities						
Private Equity and Income Pools (s)	149,572	136,358	1.1	100,202	89,999	0.8
Total investments (t)	$ 11,507,117	$ 12,540,890	100.0	$ 11,346,295	$ 11,058,823	100.0

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Note 3 (continued)

The majority of the Fund's investments are held in pooled investment funds established and administered by Alberta Revenue. Pooled investment funds have a market based unit value that is used to allocate income to participants and to value purchases and sales of pool units. As at March 31, 2004, the Fund's percentage ownership, at market, in pooled investment funds is as follows:

	% Ownership	
	2004	2003
Internally Managed Investment Pools		
Canadian Dollar Public Bond Pool	38.3	38.1
Canadian Pooled Equity Fund	67.8	55.0
Domestic Passive Equity Pooled Fund	49.2	47.7
Foreign Private Equity Pool (02)	43.8	43.8
Growing Equity Income Pool	75.3	–
Private Equity Pool	13.6	13.6
Private Equity Pool (98)	100.0	100.0
Private Equity Pool (02)	62.1	62.1
Private Income Pool	38.8	–
Private Mortgage Pool	46.6	42.8
Private Real Estate Pool	43.1	42.8
Standard & Poor's 500 Index Fund	82.1	87.2
United States Pooled Equity Fund	–	18.0
Externally Managed Investment Pools		
Absolute Return Strategy Pool	88.5	88.2
Canadian Large Cap Equity Pool	21.9	25.5
Canadian Small Cap Equity Pool	8.2	18.6
EAFE Core Equity Pool	33.5	35.6
EAFE Passive Equity Pool	78.4	74.0
EAFE Plus Equity Pool	33.4	37.1
US Large Cap Equity Pool	35.2	41.6
US Passive Equity Pool	–	73.3
US Small/Mid Cap Equity Pool	35.5	26.9

(a) The Consolidated Cash Investment Trust Fund is managed with the objective of providing competitive interest income to depositors while maintaining appropriate security and liquidity of depositors' capital. The portfolio is comprised of high quality short-term and mid-term fixed income securities with a maximum term-to-maturity of three years. As at March 31, 2004, securities held by the Fund have an average effective market yield of 2.11% per annum (2003: 3.23% per annum).

(b) The Canadian Dollar Public Bond Pool is managed with the objective of providing above average returns compared to the total return of the Scotia Capital Universe Bond Index over a four-year period while maintaining adequate security and liquidity of participants' capital. The excess return is achieved through management of portfolio duration and sector rotation. The portfolio is comprised of high quality Canadian fixed income instruments and debt related derivatives. As at March 31, 2004, securities held by the Pool have an average effective market yield of 4.20% per annum (2003: 5.41% per annum) and the following term structure based on principal amount: under 1 year: 2% (2003: 2%); 1 to 5 years: 40% (2003: 37%); 5 to 10 years: 30% (2003: 31%); 10 to 20 years: 10% (2003: 11%); over 20 years: 18% (2003: 19%).

(c) As at March 31, 2004, fixed income securities held directly by the Fund have an average effective market yield of 2.69% per annum (2003: 4.36% per annum). As at March 31, 2004, fixed-income securities have the following term structure based on principal amount: 1 to 5 years: 100%.

(d) The Private Mortgage Pool is managed with the objective of providing investment returns higher than attainable from the Scotia Capital Universe Bond Index over a four-year period or longer. The portfolio is comprised primarily of high quality commercial mortgage loans (94.1%) and provincial bond residuals (5.9%). To limit investment risk, mortgage loans are restricted to first mortgage loans, diversified by property usage and geographic location, and include a small portion of NHA insured loans. As at March 31, 2004, securities held by the Pool have an average effective market yield of 5.50% per annum (2003: 6.43% per annum) and the following term structure based on principal amount: under 1 year: 7% (2003: 5%); 1 to 5 years: 23% (2003: 31%); 5 to 10 years: 26% (2003: 20%); 10 to 20 years: 20% (2003: 24%); and over 20 years: 24% (2003: 20%).

Note 3 (continued)

(e) As at March 31, 2004, Provincial corporation debentures have an average effective market yield of 7.10% per annum (2003: 7.83% per annum) and the following term structure based on principal amounts: 5 to 10 years: 100%.

(f) Investment in loans are recorded at cost. The fair value of loans is estimated by management based on the present value of discounted cash flows. As at March 31, 2004, investment in loans, at cost, include the Ridley Grain loan amounting to $91,245,000 (2003: $91,245,000) and the Vencap loan amounting to $1,899,000 (2003: $6,114,000). The decrease in the carrying value of the Vencap loan resulted from a change to the constant yield method of amortization. The decrease of $4.215 million was charged to income of the current period.

- Under the terms of the loan to Ridley Grain, 11% Participating First Mortgage Bonds due July 31, 2015, interest is compounded semi-annually and payable annually to the extent of available cash flow and any shortfall is to be deferred and capitalized. The principal of $91,245,000 and deferred interest is repayable on or before July 31, 2015. Deferred interest at March 31, 2004 amounted to $88,414,959 (2003: $76,189,320). Grain throughput volumes are the main determinant of profitability of the grain terminal and the value of the loan to the Fund. Due to the uncertainty of forecasting the grain throughput volumes, income from the participating bonds is recognized when it is measurable and collectable.

- The principal amount of the Vencap loan, amounting to $52,588,000, is due July 2046 and bears no interest.

(g) The Domestic Passive Equity Pooled Fund is managed on a passive approach with the objective of providing investment returns comparable to the Toronto Stock Exchange S&P/TSX Composite Index. The portfolio is comprised of publicly traded Canadian equities and structured investments replicating the S&P/TSX 60 Index. The Pool's investment in units of the Floating Rate Note Pool (FRNP) are used as the underlying securities to support the index swaps of the pool. FRNP is managed with the objective of generating floating rate income needed for the swap obligations in respect of structured investments in foreign equities, domestic equities and domestic bonds. Through the use of interest rate swaps, FRNP provides investment opportunities in high quality floating-rate instruments with remaining term-to-maturity of five years or less.

(h) The Canadian Pooled Equity Fund is managed with the objective of providing competitive returns comparable to the total return of the S&P/TSX Composite Index while maintaining maximum preservation of participants' capital. The portfolio is comprised of publicly traded equities in Canadian corporations. Risk is reduced by prudent security selection and sector rotation.

(i) The Canadian Large Cap Equity Pool consists of multiple portfolios of publicly traded Canadian equities. Each portfolio is actively managed by an external manager with expertise in the Canadian large cap equity market. The performance objective is to provide returns higher than the total return of the S&P/TSX Composite Index over a four-year period. Return volatility is reduced through multiple manager investment style and market capitalization focus.

FINANCIAL STATEMENTS

Note 3 (continued)

(j) The Growing Equity Income Pool is managed with the objective of providing a steady and growing stream of dividend income to client portfolios by investing in mature companies with strong financial characteristics and growing distributions. Risk is reduced by holding established well capitalized companies. The performance of the pool is measured against the total return of the S&P/TSX Composite Index.

(k) The Canadian Small Cap Equity Pool consists of multiple portfolios of publicly traded Canadian equities with market capitalization of .15% of the S&P/TSX Index total market capitalization at time of purchase. Each portfolio is actively managed by an external manager with expertise in the Canadian small cap equity market. The performance objective is to provide returns higher than the total return of the S&P/TSX Composite Index over a four-year period and returns higher than the Nesbitt Burns Small Cap Index over shorter time periods. Return volatility is reduced through multiple manager investment style and small capitalization focus.

(l) Publicly traded US equities held in the S & P 500 Index Fund replicate the Standard & Poor's (S&P) 500 Index. The performance objective is to provide returns comparable to the total return of the S&P 500 index over a four-year period. The Pool's investment in units of the Floating Rate Note Pool (FRNP) are used as the underlying securities to support the index swaps of the pool (see Note 3g).

(m) The US Large Cap Equity Pool consists of multiple portfolios of publicly traded United States equities. Each portfolio is actively managed by an external manager with expertise in the US large cap equity market. The performance objective is to provide returns higher than the total return of the Standard & Poor's (S&P) 500 index over a four-year period. Return volatility is reduced through multiple manager investment style and large capitalization focus.

(n) The US Small/Mid Cap Equity Pool consists of one portfolio of publicly traded United States equities. The portfolio is actively managed by an external manager with expertise in the small cap and mid cap US equity market. The performance objective is to provide returns higher than the total return of the Russell 2500 Index over a four-year period.

(o) The Europe, Australasia and Far East (EAFE) Core and Plus Equity Pools consist of multiple portfolios of publicly traded non-North American equities. EAFE Core portfolios are actively managed by external managers with European and Pacific Basin mandates. EAFE core managers have constraints on foreign currency management and deviations from the MSCI EAFE Index asset mix by country. The EAFE Plus portfolios are actively managed by external managers with less constraints on country allocation, stock selection, currency management and investments in emerging markets. The performance objective is to provide returns higher than the total return of the Morgan Stanley Capital International (MSCI) EAFE Index over a four-year period.

(p) The externally managed EAFE Passive Equity Pool consists of one portfolio of non-North American publicly traded equities that replicate the MSCI EAFE Index. The performance objective is to provide returns comparable to the total return of the MSCI EAFE Index over a four-year period.

(q) The Private Real Estate Pool is managed with the objective of providing investment returns higher than the Consumer Price Index plus 5%. Real estate is held through intermediary companies which have issued to the Pool, common shares and participating debentures

Note 3 (continued)

secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. As real estate returns are positively correlated to inflation and negatively correlated to returns from fixed income securities and equities, the Pool provides diversification from the securities market with opportunities for high return.

(r) The Absolute Return Strategy Pool is managed with the objective of providing investment returns higher than the Consumer Price Index (CPI) plus 6%. The Pool uses external managers who employ various investment strategies. These strategies are expected to produce absolute positive investment returns with lower volatility.

(s) Private Equity Pools are managed with the objective of providing investment returns higher than the Consumer Price Index (CPI) plus 8%. The Private Equity Portfolio consists of the Private Equity Pool, PEP98, PEP02 and the Foreign Private Equity Pool 2002. Private equity investments are held in institutionally sponsored private equity pools. Risk is reduced by avoiding direct investments in private companies and by limiting holdings in any single pool.

(t) Where there has been a loss in value of an investment that is other than a temporary decline, the cost of the investment is written down to recognize the loss (see Note 2 (a)). Where the fair value remains less than cost, after recording a writedown, it is management's best judgement that the decline in value is caused by short term market trends and are temporary in nature.

NOTE 4 DERIVATIVE CONTRACTS

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. The Fund uses derivative contracts held indirectly through pooled investment funds to enhance return, manage exposure to interest rate risk and foreign currency risk and for asset mix management purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

(i) A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. A credit default swap allows counter-parties to buy and sell protection on credit risk inherent in a bond. A premium is paid, based on a notional amount, from one counter party to a second counter party in exchange for a contingent payment should a defined credit event occur with respect to the underlying security. There are underlying securities supporting all swaps. Leveraging is not allowed.

(ii) Forward foreign exchange contracts are contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

(iii) An equity index futures contract is an agreement to receive or pay cash based on changes in the level of the specified stock index.

FINANCIAL STATEMENTS

Note 4 (continued)

The following is a summary of the fund's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at March 31, 2004.

	Maturity			2004		2003	
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Fair Value (a)	Notional Amount	Fair Value (a)
				(thousands)			
Equity index swap contracts	93%	7%	–	$ 1,117,982	$ (8,244)	$ 575,028	$ (13,298)
Interest rate swap contracts	42%	47%	11%	684,837	(30,484)	404,230	(13,765)
Forward foreign exchange contracts	100%	–	–	590,114	4,825	616,346	21,069
Cross-currency interest rate swaps	1%	25%	74%	398,256	(45,969)	275,384	(52,399)
Credit default swap contracts	–	49%	51%	49,141	(384)	–	–
Bond index swap contracts	100%	–	–	45,613	1,114	52,107	(173)
Equity index futures contracts	100%	–	–	8,919	965	13,754	421
				$ 2,894,862	$ (78,177)	$ 1,936,849	$ (58,145)

(a) The method of determining the fair value of derivative contracts is described in note 2 (e).

NOTE 5 INVESTMENT RISK MANAGEMENT

Income and financial returns of the Fund are exposed to credit risk and price risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

The Standing Committee on the Alberta Heritage Savings Trust Fund reviews and approves the business plan of the Fund. In order to earn an optimal financial return at an acceptable level of risk, the 2003-2006 business plan proposes the following asset mix policy for the Endowment Portfolio.

Public equities	45%
Fixed income securities	35%
Real estate	10%
Private equities	5%
Absolute Return Strategies	5%

Risk is reduced through asset class diversification, diversification within each asset class, quality and duration constraints on fixed-income instruments, and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives (see Note 4). Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in foreign currency (see Note 4).

NOTE 6 FUND EQUITY

Section 8 (2) of the *Alberta Heritage Savings Trust Fund Act* (the Act) states that the net income of the Heritage Fund less any amount retained in the Fund to maintain its value shall be transferred to the General Revenue Fund annually in a manner determined by the Minister of Revenue

Section 11(4) of the Act states that for fiscal years subsequent to 1999 and until the accumulated debt is eliminated in accordance with the *Fiscal Responsibility Act*, the Minister of Revenue is not required to retain any income in the Heritage Fund to maintain its value, but may retain such amounts as the Minister of Revenue considers advisable.

FINANCIAL STATEMENTS

NOTE 7 NET INCOME (LOSS)

	2004	2003
	(thousands)	
Deposit and fixed-income securities	$ 304,331	$ 286,427
Canadian equities	509,551	(246,871)
United States equities	46,191	(591,603)
Non-North American equities	175,183	(390,325)
Private equities	7,934	6,445
Real estate	54,392	39,265
Absolute return strategies	38,069	4,563
Investment income (loss)	1,135,651	(892,099)
Direct administrative expenses (Note 8)	(2,166)	(1,778)
Net income (loss)	$ 1,133,485	$ (893,877)

Investment income (loss) is comprised of interest, dividends, amortization of discount and premiums, swap income, security lending income and realized gains and losses, net of write downs, on investments. The Fund's share of income (loss) earned from externally and internally managed investment pools is net of administrative expenses incurred by the pools. (see Note 8).

The investment income for the year ended March 31, 2004 includes writedowns totalling $2,630,000 (March 31, 2003: $668,553,000).

NOTE 8 ADMINISTRATIVE EXPENSES

Administrative expense includes investment management, cash management, safekeeping costs and other expenses charged on a cost-recovery basis directly from Alberta Revenue. The Fund's total administrative expense for the period, including amounts deducted directly from investment income of pooled funds is as follows:

	2004	2003
	(thousands)	
Direct fund expenses (Note 7)	$ 2,166	$ 1,778
Externally managed investment pools	12,338	11,883
Internally managed investment pools	3,425	2,286
Total	$ 17,929	$ 15,947
Expenses as a percentage of net assets at fair value	0.145%	0.144%

NOTE 9 COMPARATIVE FIGURES

Certain 2003 figures have been reclassified to conform to 2004 presentation.

NOTE 10 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Revenue.

FINANCIAL STATEMENTS

SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES — Schedule A

March 31, 2004 (thousands)

	Fund's share			
	2004		2003	
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	$ 118,768	$ 118,768	$ 258,716	$ 258,716
Fixed Income Securities (a)				
Corporate, public and private	2,130,560	2,165,983	2,134,498	2,115,369
Government of Canada, direct and guaranteed	783,122	793,410	639,630	640,529
Provincial, direct and guaranteed:				
Alberta	2,159	2,377	6,786	7,370
Other provinces	745,529	801,819	584,015	581,516
Municipal	41,586	43,785	62,260	63,169
Provincial corporation debentures	94,656	150,125	100,037	158,018
Loans	93,144	93,144	97,359	97,359
	3,890,756	4,050,643	3,624,585	3,663,330
Receivable from sale of investments and accrued investment income	40,472	40,472	41,239	41,239
Accounts payable and accrued liabilities	(45,660)	(45,660)	(6,589)	(6,589)
	(5,188)	(5,188)	34,650	34,650
	$ 4,004,336	$ 4,164,223	$ 3,917,951	$ 3,956,696

(a) Fixed income securities held as at March 31, 2004 have an average effective market yield of 4.53% per annum (2003: 5.68% per annum) and the following term structure based on principal amount:

	2004	2003
	%	%
under 1 year	3	2
1 to 5 years	35	36
5 to 10 years	32	31
10 to 20 years	11	13
over 20 years	19	18
	100	100

FINANCIAL STATEMENTS

SCHEDULE OF INVESTMENTS IN CANADIAN EQUITIES

Schedule B

March 31, 2004 (thousands)

	Fund's share			
	2004		2003	
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	$ 19,490	$ 19,490	$ 22,098	$ 22,098
Public equities (a)(b)				
Financials	769,038	901,733	717,653	759,882
Materials	381,880	451,810	363,479	359,403
Energy	317,651	404,651	297,762	368,554
Industrials	184,151	209,612	174,582	172,681
Information technology	161,932	204,279	151,777	122,169
Consumer discretionary	185,183	196,016	193,152	171,206
Telecommunication services	133,260	131,202	126,947	120,503
Consumer staples	90,335	110,909	88,729	101,180
Utilities	90,691	100,631	76,729	83,199
Health Care	51,479	56,827	82,581	80,367
	2,365,600	2,767,670	2,273,391	2,339,144
Passive index	628	593	16,456	16,680
	2,366,228	2,768,263	2,289,847	2,355,824
Receivable from sale of investments and accrued investment income	10,835	10,835	6,579	6,579
Accounts payable and accrued liabilities	(30,445)	(30,445)	(18,607)	(18,607)
	(19,610)	(19,610)	(12,028)	(12,028)
	$ 2,366,108	$ 2,768,143	$ 2,299,917	$ 2,365,894

(a) The Fund's effective net investment in Canadian public equities includes the fair value of deposits and floating rate notes, totalling $809,440,000 (2003: $550,918,000) which are used as underlying securities to support the notional amount of Canadian equity index swap contracts and equity index futures contracts.

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Toronto Stock Exchange S&P/TSX Composite Index.

FINANCIAL STATEMENTS

SCHEDULE OF INVESTMENTS IN UNITED STATES EQUITIES

Schedule C

March 31, 2004 (thousands)

	Fund's share			
	2004		2003	
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	$ 29,995	$ 29,995	$ 23,085	$ 23,085
Public equities (a) (b)				
Financials	357,904	400,188	386,731	338,718
Information Technology	282,604	313,416	262,253	235,478
Consumer discretionary	292,063	311,021	326,894	291,626
Health Care	240,502	238,498	270,831	257,347
Industrials	204,356	220,671	218,911	191,605
Consumer staples	175,500	183,849	179,069	161,325
Energy	107,832	112,968	128,498	111,492
Materials	59,136	70,825	57,080	48,294
Telecommunication services	55,511	55,753	54,907	49,260
Utilities	43,449	46,933	45,953	43,141
	1,818,857	1,954,122	1,931,127	1,728,286
Passive index	–	–	132	174
	1,818,857	1,954,122	1,931,259	1,728,460
Receivable from sale of investments and accrued investment income	7,408	7,408	4,023	4,023
Accounts payable and accrued liabilities	(29,693)	(29,693)	(3,355)	(3,355)
	(22,285)	(22,285)	668	668
	$ 1,826,567	$ 1,961,832	$ 1,955,012	$ 1,752,213

(a) The Fund's effective net investment in US public equities includes the fair value of deposits and floating rate notes, totalling $317,461,000 (2003: $37,864,000) which are used as underlying securities to support the notional amount of US equity index swap contracts and equity index futures contracts.

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard & Poor's S&P 500 Index.

FINANCIAL STATEMENTS

SCHEDULE OF INVESTMENTS IN NON-NORTH AMERICAN EQUITIES — Schedule D

March 31, 2004 (thousands)

	Fund's share			
	2004		2003	
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	$ 40,551	$ 40,551	$ 64,941	$ 64,941
Public equities (a)				
Financials	405,030	484,429	414,562	362,993
Consumer discretionary	266,480	314,210	280,984	239,047
Industrials	197,744	232,027	179,573	151,420
Telecommunication services	142,311	158,735	193,406	164,414
Health Care	150,885	156,468	203,489	170,131
Materials	130,807	155,861	128,579	118,296
Energy	140,245	154,046	161,419	146,925
Consumer staples	135,141	150,389	163,886	152,151
Information technology	97,954	125,276	104,922	89,339
Utilities	67,353	78,851	102,399	94,293
	1,733,950	2,010,292	1,933,219	1,689,009
Receivable from sale of investments and accrued investment income	21,318	21,318	13,595	13,595
Accounts payable and accrued liabilities	(19,319)	(19,319)	(26,439)	(26,439)
	1,999	1,999	(12,844)	(12,844)
	$ 1,776,500	$ 2,052,842	$ 1,985,316	$ 1,741,106

(a) The sector classification conforms to the Global Industry Classification Standard followed by Standard & Poor's. Public equities by geographic location are as follows:

Public equities by country

	Fund's share			
	2004		2003	
	Cost	Fair Value	Cost	Fair Value
United Kingdom	$ 421,563	$ 462,861	$ 538,441	$ 462,446
Japan	318,432	385,621	320,114	273,788
France	163,625	188,025	179,921	153,954
Switzerland	142,150	157,843	150,805	131,937
Germany	119,043	136,328	101,305	82,318
Netherlands	98,481	109,348	127,664	105,851
Australia	73,965	98,036	87,877	90,362
Italy	77,319	88,605	85,869	76,510
Spain	44,093	53,543	52,331	46,591
Hong Kong	38,962	43,950	56,369	50,019
Other	236,317	286,132	232,523	215,233
	$ 1,733,950	$ 2,010,292	$ 1,933,219	$ 1,689,009

FINANCIAL STATEMENTS

SCHEDULE OF INVESTMENTS IN REAL ESTATE

Schedule E

March 31, 2004 (thousands)

	Fund's share			
	2004		2003	
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	$ 1,162	$ 1,162	$ 1,129	$ 1,129
Real Estate (a)				
Office	369,962	422,531	356,881	406,099
Retail	378,702	402,264	373,473	385,180
Industrial	57,490	63,298	35,741	41,008
Residential	53,909	49,782	31,132	30,033
	860,063	937,875	797,227	862,320
Participation units	8,355	8,355	559	559
Accrued income and accounts receivable	2,379	2,379	5,940	5,940
	$ 871,959	$ 949,771	$ 804,855	$ 869,948

(a) The following is a summary of real estate investments by geographic location:

	Fund's share			
	2004		2003	
	Cost	Fair Value	Cost	Fair Value
Ontario	$ 635,609	$ 693,793	$ 605,698	$ 655,052
Alberta	206,072	224,660	173,597	188,541
British Columbia	18,382	19,422	17,932	18,727
	$ 860,063	$ 937,875	$ 797,227	$ 862,320

FINANCIAL STATEMENTS

SCHEDULE OF INVESTMENT RETURNS

Schedule F

Year Ended March 31, 2004

The Fund uses the time-weighted rate of return based on market values to measure performance. The measure involves the calculation of the return realized by the Fund over a specified period and is a measure of the total return received from an investment dollar initially invested. Total return includes cash distributions (interest and dividend payments) and capital gains or losses (realized and unrealized).

The time-weighted rate of return measures the compounded rate of growth of the initial investment over the specified period. It is designed to eliminate the effect that the size and timing of cash flows have on the internal rate of return. The investment industry uses time-weighted rates of return calculated using market values when comparing the returns of funds with other funds or indices.

Investment returns for the Fund are as follows:

	One Year Return				4 Year Compound Annualized Return
	2004	2003	2002	2001	
Time-weighted rates of return					
Short-term fixed income	2.9	3.0	3.8	5.7	3.9
Scotia Capital 91-day T-Bill Index	*3.0*	*2.7*	*3.7*	*5.7*	*3.8*
Long-term fixed income	11.3	9.5	5.9	9.5	9.0
Scotia Capital Universe Bond Index	*10.8*	*9.2*	*5.1*	*8.7*	*8.4*
Canadian equities	36.6	(16.6)	4.2	(16.0)	(0.1)
S&P/TSX Composite Index	*37.7*	*(17.6)*	*4.9*	*(18.6)*	*(0.8)*
United States equities	22.0	(30.6)	1.4	(14.4)	(7.4)
S&P 500 Index	*20.5*	*(30.7)*	*1.6*	*(15.1)*	*(7.9)*
Non-North American equities	40.9	(29.1)	(5.8)	(22.6)	(7.6)
MSCI EAFE Index	*40.5*	*(29.3)*	*(7.3)*	*(19.6)*	*(7.2)*
Private equities (2)	4.6	(3.3)	n/a	n/a	n/a
Consumer Price Index plus 8%	*8.7*	*5.7*	*n/a*	*n/a*	*n/a*
Real estate (1)	7.5	9.8	7.3	9.7	8.6
Consumer Price Index plus 5%	*5.7*	*9.6*	*9.9*	*11.9*	*9.3*
Absolute Return Strategies (2)	10.7	1.6	n/a	n/a	n/a
Consumer Price Index plus 6%	*6.7*	*4.7*	*n/a*	*n/a*	*n/a*
Total Endowment portfolio	22.5	(11.3)	3.3	(6.1)	1.3
Policy Benchmark	*21.7*	*(11.7)*	*3.4*	*(6.2)*	*1.1*
Transition portfolio	n/a	0.5	5.3	8.2	n/a
Overall Return	22.5	(11.0)	4.2	(0.1)	3.2

(1) Effective April 1, 2002, the benchmark changed from the Russell Canadian Property Index (RCPI) to CPI plus 5%. Therefore, the benchmark for four years is a combination of RCPI and CPI plus 5%.

(2) Actual and benchmark returns for 2003 are for six months.

List of Investments (unaudited)

The following unaudited schedules (1 to 12) present the Heritage Fund's proportionate share of the ten largest public securities held in pooled funds administered by Alberta Revenue. For a detailed listing of all investments, please call (780) 427-5364.

CANADIAN DOLLAR PUBLIC BOND POOL

SCHEDULE 1

Schedule of Ten Largest Issues (based on fair value)

as at March 31, 2004 (thousands)

Security Name	Coupon % Maturity Date	Heritage Fund Share Par Value	Cost	Fair Value
Bay-Wellington Tower	6.400 [illegible]r 08 13	111,975	$ 116,154	$ 117,059
Toronto Dominion Centre	6.300 Feb 28 08	130,159	136,262	140,311
Province of Ontario	6.500 Mar 08 29	35,535	41,227	40,409
55 School Board TR	5.900 Jun 02 33	32,540	34,044	33,765
Province of Quebec SWP	7.500 JulL 15 23 US	18,758	25,717	31,548
Province of Quebec SWP	7.125 Feb 09 24 US	19,236	26,785	31,254
MBS-Bank of Nova Scotia	4.900 Dec 01 12	28,344	28,693	29,147
Score Trust	4.949 Feb 20 14	27,563	28,857	27,885
Bentall Centre	6.340 Nov 26 04	26,797	28,074	27,285
Nova Scotia-FSA SWP	11.750 Apr 18 19 GB	6,733	16,833	27,241
Total Other Issues			2,652,429	2,717,675
Heritage Fund's Investment in the Canadian Dollar Public Bond Pool			$ 3,135,075	$ 3,223,579

DOMESTIC PASSIVE EQUITY POOL FUND

SCHEDULE 2

Schedule of Ten Largest Issues (based on fair value)

as at March 31, 2004 (thousands)

ACTUAL INVESTMENT

		Heritage Fund Share		
Security Name	Major Industry Name	Shares	Cost	Fair Value
Floating Rate Note Pool (1)	Pool Units	49,673	$ 718,379	$ 715,333
Canadian Dollar Account (1)	Cash	-	40,878	40,878
Toronto Dominion Bank (1)	Bond 5.20% Sep 04 12	-	29,211	29,211
Research in Motion	Information technology	104	3,693	12,723
Power Corporation of Canada	Financials	194	3,621	10,428
Bank of Nova Scotia (1)	Bond 6.25% Jul 16 12	-	6,330	9,512
Power Financial Corp	Financials	142	2,682	7,905
Great-West Lifeco	Financials	142	2,319	7,218
Shoppers Drug Mart	Consumer Staples	196	3,609	6,147
Nortel Networks Corp	Information technology	756	3,051	5,831
Total Other Issues			175,389	307,040
Heritage Fund's Investment in the Domestic Passive Equity Pool Fund			$ 989,162	$ 1,152,226

(1) The investment in equity index swaps of the S&P/TSX 60 Composite Index including financials, utilities and technology sector swaps is supported by underlying investments in cash, floating rate notes and bonds. The receivable or payable from equity index swap contracts is included in total other issues.

EFFECTIVE INVESTMENT (2)

Security Name	Major Industry Name	EFFECTIVE INVESTMENT (2) FAIR VALUE
Royal Bank of Canada	Financials	$ 57,750
Bank of Nova Scotia	Financials	50,329
Nortel Networks Corp	Information Technology	45,847
Toronto Dominion Bank	Financials	42,817
Bank of Montreal	Financials	38,312
Encana Corporation	Energy	36,549
BCE Inc	Telecommunications	35,846
Canadian Imperial Bank of Commerce	Financials	34,717
Manulife Financial Corp	Financials	31,617
Alcan Inc	Materials	30,131
Total Other Issues		748,311
Heritage Fund's Investment in the Domestic Passive Equity Pool Fund		$ 1,152,226

(2) The Pool is managed on a passive approach with the objective of providing investment returns comparable to the Toronto Stock Exchange S&P/TSX Composite Index. This is accomplished through directly held publicly traded Canadian equities and equity index swap contracts replicating the S&P/TSX 60 Index including specific financials, utilities and technology sector swaps. The Pool's investment in cash, floating rate notes and bonds are used as underlying securities to support the equity index swaps. The effective investment includes the Pool's exposure to price changes of stocks held on the S&P/TSX 60 Index including specific financial, utility and technology stocks. Accordingly, the number of shares and cost of shares is not provided.

CANADIAN POOLED EQUITY FUND

SCHEDULE 3

Schedule of Ten Largest Issues (based on fair value)

as at March 31, 2004 (thousands)

Security Name	Major Industry Name	Heritage Fund Share		
		Shares	Cost	Fair Value
Royal Bank of Canada	Financials	633	$ 28,268	$ 39,563
Bank of Nova Scotia	Financials	388	16,127	27,477
Bank of Montreal	Financials	494	16,837	26,804
Nortel Neworks Corp	Information Technology	3,395	18,565	26,175
Manulife Financial Corporation	Financials	527	22,135	25,590
Canadian Imperial Bank of Commerce	Financials	373	17,181	25,507
Encana Corporation	Energy	440	18,184	24,949
Toronto Dominion Bank	Financials	498	17,104	22,971
Sun Life Financial Inc.	Financials	637	21,297	22,436
BCE Inc.	Telecommunications	753	26,059	20,767
Total Other Issues			379,597	437,142
Heritage Fund's Investment in the Canadian Pooled Equity Fund			$ 581,354	$ 699,381

EXTERNAL MANAGERS CANADIAN LARGE CAP POOL

SCHEDULE 4

Schedule of Ten Largest Issues (based on fair value)

as at March 31, 2004 (thousands)

Security Name	Major Industry Name	Heritage Fund Share		
		Shares	Cost	Fair Value
Bank of Nova Scotia	Financials	455	$ 22,360	$ 32,246
Toronto Dominion Bank	Financials	631	23,782	29,099
Alcan Inc.	Materials	491	27,612	28,639
Royal Bank of Canada	Financials	430	22,523	26,920
Encana Corp	Energy	459	21,362	25,998
Nortel Networks Corp	Information Technology	3,265	17,307	25,170
Manulife Financial Corp	Financials	495	22,296	24,040
Petro-Canada	Energy	391	16,036	22,510
Bank of Montreal	Financials	392	16,350	21,257
Sun Life Financial Inc.	Financials	594	20,004	20,913
Total Other Issues			367,065	417,474
Heritage Fund's Investment in the External Managers Canadian Large Cap Pool			$ 576,697	$ 674,266

GROWING EQUITY INCOME POOL

SCHEDULE 5

Schedule of Ten Largest Issues (based on fair value)

as at March 31, 2004 (thousands)

		Heritage Fund Share		
Security Name	Major Industry Name	Shares	Cost	Fair Value
Royal Bank of Canada	Financials	244	$ 15,100	$ 15,250
Manulife Financial Corp	Financials	278	11,864	13,521
Bank of Montreal	Financials	217	11,825	11,780
Canadian Imperial Bank of Commerce	Financials	170	10,608	11,619
Sun Life Financial Inc.	Financials	267	8,827	9,401
Canadian National Railway	Industrials	162	8,407	8,306
Shell Canada	Energy	127	7,449	7,886
BCE Inc.	Telecommunications	271	7,926	7,474
Alcan Inc.	Materials	125	7,250	7,281
TransCanada Corp	Utilities	247	6,797	6,978
Total Other Issues			86,231	91,639
Heritage Fund's Investment in the Growing Equity Income Pool			$ 182,284	$ 191,135

EXTERNAL MANAGERS CANADIAN SMALL CAP POOL

SCHEDULE 6

Schedule of Ten Largest Issues (based on fair value)

as at March 31, 2004 (thousands)

		Heritage Fund Share		
Security Name	Major Industry Name	Shares	Cost	Fair Value
Winpak Ltd	Materials	11	$ 692	$ 1,110
Toromont Industries Ltd	Industrials	26	430	993
Uni Select Inc.	Consumer Discretionary	42	503	966
Stratos Global Corp	Telecommunication Services	69	784	940
BMTC Group Inc.	Consumer Discretionary	79	232	931
Ritchie Brothers Auctioneer Inc.	Industrials	11	477	841
Shermag Inc.	Consumer Staples	62	712	815
Groupe LaPerriere + Verreault	Industrials	45	640	806
Zargon Oil and Gas Ltd	Energy	49	300	800
Government of Canada	Treasury Bill	-	839	785
Total Other Issues			31,002	42,148
Heritage Fund's Investment in the External Managers Canadian Small Cap Pool			$ 36,611	$ 51,135

S&P 500 Index Fund

SCHEDULE 7

Schedule of Ten Largest Issues (based on fair value)

as at March 31, 2004 (thousands)

ACTUAL INVESTMENT

		Heritage Fund Share		
Security Name	Major Industry Name	Shares	Cost	Fair Value
Floating Rate Note Pool (1)	Pool Units	19,062	$ 275,399	$ 274,505
US Dollar Account (1)	Cash	-	23,526	23,526
General Electric Company	Industrials	534	22,958	21,369
EXXON Mobil Corp	Energy	344	18,119	18,726
Microsoft Corporation	Information Technology	566	17,644	18,477
Pfizer Inc.	Healthcare	400	19,103	18,350
Citigroup Inc.	Financials	270	14,403	18,283
Wal-Mart Stores Inc.	Consumer Staples	227	15,302	17,734
American International Group Inc	Financials	137	10,920	12,781
Intel Corp	Information Technology	340	8,255	12,110
Total Other Issues			488,704	595,513
Heritage Fund's Investment in the S&P 500 Index Fund			$ 914,333	$ 1,031,374

(1) The Pool's investment in equity index swaps of the S&P 500 Index is supported by underlying investments in cash and floating rate notes. The receivable or payable from equity index swap contracts is included in total other issues.

EFFECTIVE INVESTMENT (2)

Security Name	Major Industry Name	EFFECTIVE INVESTMENT (2) FAIR VALUE
General Electric Company	Industrials	$ 30,829
EXXON Mobil Corp	Energy	27,012
Microsoft Corp	Information Technology	26,668
Pfizer Inc	Healthcare	26,446
Citigroup Inc	Financials	26,378
Wal Mart Stores Inc	Consumer Staples	25,575
American International Group Inc	Financials	18,432
Intel Corp	Information Technology	17,475
Cisco Systems Inc	Information Technology	16,043
International Business Machines	Information Technology	15,442
Total Other Issues		801,074
Heritage Fund's Investment in the S&P 500 Index Fund		$ 1,031,374

(2) The Pool is managed on a passive approach with the objective of providing investment returns comparable to the S&P 500 Index. This is accomplished through directly held publicly traded US equities and equity index swap contracts replicating the S&P 500 Index. The Pool's investment in cash and floating rate notes are used as underlying securities to support the equity index swaps. The effective investment includes the Pool's exposure to price changes of stocks held on the S&P 500 Index. Accordingly, the number of shares and cost of shares is not provided.

EXTERNAL MANAGERS US LARGE CAP POOL

SCHEDULE 8

Schedule of Ten Largest Issues (based on fair value)

as at March 31, 2004 (thousands)

		Heritage Fund Share		
Security Name	Major Industry Name	Shares	Cost	Fair Value
Pfizer Inc.	Health Care	450	$ 24,261	$ 20,685
Citigroup Inc.	Financials	283	18,194	19,170
Pepsico Inc.	Consumer Staples	239	17,364	16,874
Cendant Corp	Industrials	498	11,257	15,922
Qualcomm Inc.	Information Technology	170	10,121	14,832
Viacom Inc.	Consumer Discretionary	259	16,389	13,294
Cisco Systems Inc.	Information Technology	364	10,362	11,214
Microsoft Corporation	Information Technology	338	16,182	11,075
Wyeth	Health Care	209	12,655	10,271
Federal Home Loan Mortgage Corp	Financials	132	11,656	10,206
Total Other Issues			539,035	542,296
Heritage Fund's Investment in the External Managers US Large Cap Pool			**$ 687,476**	**$ 685,839**

EXTERNAL MANAGERS US SMALL-MID CAP EQUITY POOL

SCHEDULE 9

Schedule of Ten Largest Issues (based on fair value)

as at March 31, 2004 (thousands)

		Heritage Fund Share		
Security Name	Major Industry Name	Shares	Cost	Fair Value
US Dollar Account	Cash	-	$ 15,489	$ 14,259
State Street Euro Dollar Time Dep	Cash	-	7,976	7,329
Idexx Labs Inc.	Health Care	46	2,179	3,444
Fremont General Corp	Financials	82	1,698	3,287
New Century Financial Corporation	Financials	41	1,653	2,587
R & G Financial Corp	Financials	55	1,271	2,511
General Growth Properties Inc.	Financials	50	1,439	2,325
International Rectifier Corp	Information Technology	37	1,203	2,255
Amdocs Ltd.	Information Technology	58	1,612	2,126
Invitrogen Corp	Health Care	23	1,129	2,119
Total Other Issues			189,109	202,377
Heritage Fund's Investment in the External Managers US Small-Mid Cap Pool			**$ 224,758**	**$ 244,619**

EXTERNAL MANAGERS EAFE CORE POOL

SCHEDULE 10

Schedule of Ten Largest Issues (based on fair value)

as at March 31, 2004 (thousands)

Security Name	Major Industry Name	Country	Heritage Fund Share		
			Shares	Cost	Fair Value
Vodafone Group	Telecommunication Services	United Kingdom	7,899	$ 26,539	$ 24,527
Total SA	Energy	France	92	21,024	22,199
Nestle SA	Consumer Staples	Switzerland	56	18,605	18,794
ENI	Energy	Italy	609	13,273	16,050
Roche Holdings AG	Health Care	Switzerland	105	12,998	13,398
Aventis SA	Health Care	France	132	12,485	13,338
Royal Dutch Petroleum	Energy	Netherlands	212	14,999	13,186
Credit Suisse Group	Financials	Switzerland	278	11,282	12,596
Nokia (Alberta) OY	Information Technology	Finland	414	11,147	11,137
Cadbury Schweppes	Consumer Staples	United Kingdom	1,043	11,305	10,790
Total Other Issues				795,553	871,298
Heritage Fund's Investment in the External Managers EAFE Core Pool				$ 949,210	$ 1,027,313

EXTERNAL MANAGERS EAFE PLUS POOL

SCHEDULE 11

Schedule of Ten Largest Issues (based on fair value)

as at March 31, 2004 (thousands)

Security Name	Major Industry Name	Country	Heritage Fund Share		
			Shares	Cost	Fair Value
UBS AG	Financials	Switzerland	113	$ 8,679	$ 11,018
Total SA	Energy	France	38	8,515	9,227
DBS Group Holdings	Financials	Singapore	741	7,082	8,351
Aventis SA	Health Care	France	69	6,576	6,933
Takeda Chemical Industries	Health Care	Japan	114	6,970	6,629
Novartis AG	Health Care	Switzerland	115	6,825	6,376
Philips Elec(kon)	Consumer Discretionary	Netherlands	159	4,188	6,030
UBS AG	Corporate Bonds	United Kingdom	-	4,661	5,814
Boc Group	Materials	United Kingdom	268	5,923	5,813
Canona Inc.	Information Technology	Japan	78	4,877	5,297
Total Other Issues				396,178	428,851
Heritage Fund's Investment in the External Managers EAFE Plus Pool				$ 460,474	$ 500,339

EXTERNAL MANAGERS EAFE PASSIVE POOL

SCHEDULE 12

Schedule of Ten Largest Issues (based on fair value)

as at March 31, 2004 (thousands)

Security Name	Major Industry Name	Country	Heritage Fund Share		
			Shares	Cost	Fair Value
British Petroleum PLC	Energy	United Kingdom	1,145	$ 10,746	$ 12,590
HSBC Holdings	Financials	United Kingdom	568	7,582	11,073
Vodafone Group	Telecommunication Services	United Kingdom	3,536	9,612	10,979
Glaxosmithkline	Health Care	United Kingdom	309	8,469	7,949
Total SA	Energy	France	32	6,032	7,654
Nestle SA	Consumer Staples	Switzerland	21	5,762	6,960
Novartis AG	Health Care	Switzerland	123	5,981	6,841
Toyota Motor Corp	Consumer Discretionary	Japan	140	4,698	6,819
Royal Dutch Petroleum	Energy	Netherlands	108	6,582	6,700
Nokia (Alberta)	Information Technology	Finland	247	4,730	6,648
Total Other Issues				296,622	440,977
Heritage Fund's Investment in the External Managers EAFE Passive Pool				**$ 366,816**	**$ 525,190**

Glossary

ABSOLUTE RETURN STRATEGIES
Absolute Return Strategies encompass a wide variety of investments with the objective of realizing positive returns regardless of the overall market direction. A common feature of many of these strategies is buying undervalued securities and selling short overvalued securities. Some of the major types of strategies include long/short equity, fixed income arbitrage, merger arbitrage, macroeconomic strategies, convertible arbitrage, distressed securities and short selling.

ACCRUED INTEREST
Interest income that has been earned but not paid in cash.

ACTIVE STRATEGIES
The strategies have two forms - security selection or market timing. Security selection is the buying and selling of securities to earn a return above a market index such as the S&P/TSX Index for Canadian Stocks. Market timing is based on shifting asset class weights to earn a return above that available from maintaining the asset class exposure of the policy asset mix.

ASSET MIX
The percentage of an investment fund's assets allocated to major asset classes (for example 60% equities, 5% real estate and 35% fixed income).

BEAR MARKET
A market, in which, prices are declining. A "bear" is a person who expects that the market or the price of a particular security will decline.

BENCHMARK
A standard against which others are measured. For the purposes of this report, benchmarks are established income indices used to measure the health of the Fund's investment income.

BOND/DEBENTURE
A financial instrument showing a debt where the issuer promises to pay interest and repay the principal by the maturity date.

BOOK VALUE
See Cost Value

BULL MARKET
A market, in which, prices are rising. A "bull" is a person who expects that the market or the price of a particular security will rise.

CAPITAL GAIN
The market value received on sale of an asset beyond its book value or purchase price. If the assets is bought for $50 and sold for $75, the realized capital gain (profit) is $25.

COST VALUE
The value for which an asset was acquired.

DEPOSITS
Liquid, short term investments. A cash equivalent.

DERIVATIVE CONTRACT
Financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates.

DIVERSIFICATION
Spreading investments to reduce risk by buying different securities from various companies, businesses, locations and governments.

DURATION
Duration is the weighted average term to maturity of the security's cash flows (i.e. interest and principal) and is the measure of price volatility; the greater the duration of a bond, the greater its percentage price volatility.

EMERGING MARKET
An economy in the early stages of development whose markets have sufficient size and liquidity and are receptive to foreign investment. Examples include China, Greece and Brazil.

EQUITY
Stocks; the ownership interest in a company.

EXTERNAL MANAGER
A third-party firm contracted to provide investment management services.

FAIR VALUE
Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair value is similar to market value.

FIXED INCOME SECURITIES
Interest bearing investments such as bonds and debentures and money market investments such as treasury bills and discount notes (see "Bond" and "Money Market Security").

GENERAL REVENUE FUND (GRF)
The central operating account for the Province of Alberta. It is where most of the revenues received by the Province are deposited and from where most of the expenditures are made.

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)
These are accounting guidelines formulated by the Canadian Institute of Chartered Accountants (CICA) Accounting Standards Committee (ASC), that govern how business report their financial statements to the public. They are the principles under which the financial statements of the Heritage Fund and other provincial funds are prepared. These principles help ensure fair presentation of the financial affairs of the Province.

INTEREST RATE SENSITIVE EQUITY
Equity whose return is expected to react to changes in interest rates.

INVESTMENT PORTFOLIO
A pool of securities held as an investment. Holdings of a diverse group of assets by an individual company or fund.

LARGE CAP
Investment in larger capitalized firms. Within Canada, companies with a market capitalization of greater than 0.15% of the total Toronto Stock Exchange market capitalization.

LIQUIDITY
The ease with which an asset can be turned into cash and the certainty of the value it will obtain.

MARKET VALUE
See fair value

MARKET (VALUE) RATE OF RETURN
The market value rate of return measures income (interest and dividends) and capital appreciation or depreciation (realized and unrealized). The method used to calculate the return is the time weighted method.

Time-weighted rate of return are designed to eliminate the effect that the size and timing of cash flows has on the internal rate of return since the pattern of cash flows vary significantly among funds. The investment industry uses time-weighted rates of return when comparing the returns of one fund to another fund or to an index.

MARKETABLE SECURITY
An investment for which there is usually a ready market.

MID-TERM INVESTMENT
A fixed income instrument (bonds, debentures, treasury bills or discount notes) that matures in one to five years from the date of acquisition.

MODIFIED DURATION
A measure of price volatility of fixed income securities (i.e. bonds). It is the weighted average term-to-maturity of the security's cash flows (i.e., interest and principal). The greater the modified duration of a bond, the greater its percentage price volatility.

MONEY MARKET SECURITY
A fixed income security that matures within one year form the date of acquisiton.

NET INCOME
The amount of earnings remaining after deducting expenses.

NET INVESTMENT INCOME
On a cost basis, includes realized capital gains, interest, dividends, security lending income, derivative income and administrative expenses. On a fair value basis, include in addition to the above, current period changes in unrealized gains and losses.

NOMINAL RATE OF RETURN
A measure of return that does not exclude the effect of inflation (see Real Rate of Return).

PAR VALUE
A value set as the face or principal amount of a security, typically expressed as multiples of $100 or $1000. Bondholders receive par value for their bonds at maturity.

PASSIVE STRATEGIES
These strategies involve investing to replicate the performance of a given market index such as the S&P/TSX Composite Index for Canadian stocks, or managing asset class exposure to match the performance of an established policy asset mix.

REAL VALUE OR REAL RATE OF RETURN
A measure of value or return after accounting for inflation. It is equal to the nominal value or return less an amount for inflation.

REALIZED AND UNREALIZED
Terms generally used to describe capital gains or losses. A gain or loss is realized when the asset is sold; prior to sale the gain or loss is unrealized and it is only a potential gain or loss.

SECURITY
Any investment instrument such as a bond, common stock, deed of trust on property, or any evidence of indebtedness or equity.

SHORT-TERM INVESTMENT
An investment with a maturity date of less than one year.

SMALL CAP
Investment in smaller capitalized firms. Within Canada, companies with a market capitalization of less than 0.15% of the total Toronto Stock Exchange market capitalization.

TERM-TO-MATURITY
The number of years left until a bond matures.

VOLATILITY
In financial matters, volatility of returns is the measurement used to define risk. The greater the volatility, the higher the risk.

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